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C O N F I D E N T I A L KUWAIT 002065

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STATE FOR NEA/ARP, EB/ESC/TFS, TREASURY FOR KRISTEN HECHT

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SUBJECT: CENTRAL BANK GOVERNOR ON PENDING TERROR FINANCE  
LAW AND RECENT CURRENCY REVALUATION

REF: KUWAIT 1772

Classified By: Ambassador Richard LeBaron. Reasons 1.4 (b) and (d)

¶1. (C/NF) Summary: During a May 31 meeting with the Ambassador, the Central Bank Governor pointed to GOK interagency progress in finalizing a draft TF law; cited inflation and rising import costs as factors prompting a revaluation of the Kuwaiti Dinar against the USD; and voiced a readiness to retire as governor after 23 years at the helm of the Central Bank although the GOK prefers he stay on. End summary.

¶2. (C/NF) On May 31, the Ambassador met with the Central Bank Governor Shaykh Salem AbdulAziz Al-Sabah to discuss the status of the pending terror finance legislation; reaffirm the USG's continued focus on enhancing charity oversight and discuss the economic factors prompting the CBK to revalue the Kuwaiti Dinar against the USD.

New Draft TF Law Ready This Summer

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¶3. (C/NF) On terror finance, Shaykh Salem explained that the GOK working group responsible for the draft "was close to a final agreement" on incorporating GOK interagency recommendations, most notably suggestions by the Office of the Public Prosecutor. Al-Sabah described the latest draft as "very suitable," incorporating all the key international requirements aimed at strengthening Kuwait's CTF/AML regime. Once the final draft is agreed upon by members of the GOK's inter-ministerial National Committee to Combat Money Laundering and Terrorist Financing, (chaired by the Governor), a copy will be shared with the IMF for its input, and possibly with the USG--subject to the approval of the Committee, he explained. The Ambassador reiterated the USG's preference to review the draft as soon as possible to allow ample opportunity for possible revisions before the draft is sent to parliament. Shaykh Salem welcomed USG input and explained that the National Committee will determine the timing of its release to outside parties before a final version is submitted to the Finance Minister for cabinet and parliamentary approval. Shaykh Salem predicted the law will be submitted to parliament "by this summer," predicting that both the cabinet and new parliament will be asked to review and approve the draft law "with urgency."

¶4. (C/NF) The Ambassador also underscored continued USG interest and focus on GOK efforts to enhance oversight of Kuwaiti charities' activities abroad, pointing to recent indications of GOK action as encouraging news. The Governor reaffirmed the GOK's commitment in this regard, commenting that the he was hopeful the new law would further strengthen the country's CTF/AML regime and overcome limitations in the

current 2002 AML law (No. 35).

Revaluation Prompted by Inflation and Imports

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¶5. (C/NF) On the question of the recent revaluation of the Kuwaiti Dinar (KD) against the USD (reftel), Shaykh Salem noted GOK concerns about Kuwait's rising inflation rates (4.2% in 2005), the KD's peg to the dollar and the rising cost of imports from the U.S., China, Japan and Europe as the main factors prompting the revaluation. The Governor dismissed press reports that the GOK was supportive of valuing global oil prices in Euros versus USD, brushing it off as a "cyclical question" brought on by media speculation.

I'm Ready to Retire But They Won't Let Me

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¶6. (C/NF) Shaykh Salem also revealed that his request to resign had been turned down, extinguishing any hopes (for the time being) of retirement, extra family time and the possibility of venturing into the private sector. (Note: Shaykh Salem joined the Central Bank in 1977 and has served as governor since 1986. End note.)

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